

CONSOLIDATED STATEMENT OF INCOME

	First Half	
	1971	1970
INCOME		
Net oil and gas sales	\$450,000	\$402,000
Interest income	25,000	7,000
	<u>475,000</u>	<u>409,000</u>
CASH EXPENSES		
Production	109,000	93,000
General and administrative	42,000	38,000
Interest	21,000	15,000
	<u>172,000</u>	<u>146,000</u>
CASH FLOW FROM OPERATIONS	303,000	263,000
DEPRECIATION AND DEPLETION ..	113,000	115,000
NET INCOME	<u>\$190,000</u>	<u>\$148,000</u>
CASH FLOW per common share ..	7.6c	6.6c
NET INCOME per common share ..	4.8c	3.7c

SOURCE AND APPLICATION OF FUNDS

	First Half	
	1971	1970
SOURCE OF FUNDS		
Cash flow from operations	\$303,000	\$263,000
Sale of production payments ..	425,000	450,000
	<u>728,000</u>	<u>713,000</u>
APPLICATION OF FUNDS		
Land acquisition and rentals ..	35,000	42,000
Geological and geophysical	44,000	33,000
Non-productive drilling	26,000	29,000
Productive drilling and equipment	48,000	66,000
	<u>153,000</u>	<u>170,000</u>
Retirement of production payments	218,000	71,000
	<u>371,000</u>	<u>241,000</u>
Increase (decrease) in working capital	<u>\$357,000</u>	<u>\$472,000</u>
OIL PRODUCTION		
Net barrels	142,400	136,400
<i>Subject to audit and adjustment at year end</i>		

PETROL

PROGRESS REPORT AUGUST 1971

THE PETROL OIL AND GAS COMPANY LIMITED • 630 SIXTH AVENUE S.W., CALGARY 1, ALBERTA, CANADA

TO THE SHAREHOLDERS

FINANCIAL

First Half 1971

Net income for the first half of 1971 was \$190,000, a gain of 28.4% over the same period last year. Earnings per share for the respective periods amounted to 4.8c versus 3.7c.

Cash flow from operations amounted to \$303,000 (7.6c per share), a 15.2% increase over the first half of 1970 (\$263,000 or 6.6c per share).

Oil revenues were up \$54,000 (15.0%) to \$411,000; the increase resulted from larger volumes sold (+\$16,000) and a higher price for crude oil (+\$38,000). Natural gas sales totalled \$37,000 down \$5,000 from last year owing to the sale of a gas property in Alberta. Cash expenses for the two periods were \$172,000 and \$146,000 respectively.

During the first half, Petrol sold production payments amounting to \$425,000 and retired \$218,000 of previous payments. Exploration and development expenditures amounted to \$153,000 compared with \$170,000 last year. At June 30, 1971, Petrol's working capital position was \$1,385,000.

OIL PRODUCTION

Net oil production during the first half of 1971 amounted to 142,400 barrels (136,400 barrels last year).

EXPLORATION

THE NORTHWEST TERRITORIES

Mackenzie River Valley

During the last week of September, a drilling rig, ancillary equipment and supplies will be loaded on barges at Hay River, N.W.T. The barges should reach the off-loading site in approximately one week. As soon as the ground freezes, the rig will move to its drilling site with a spud date estimated for December 1. A second drilling rig has been moved south from Inuvik. Petrol will be participating in an exploration program including six wells and over 400 miles of seismic surveys. In an area from the Arctic Ocean south to Wrigley (see map), your Company owns varying interests in 2,301,000 acres and holds options to earn interests in an additional 1,226,000 acres.

As previously reported, Petrol and its associates have been conducting seismic surveys on four blocks of land on which they hold "seismic options". In each case prospects have been found and in each case it has been decided to drill wells to earn interests in these lands. As a result of drilling these four wells, Petrol and its associates will earn 50% in 253,578 acres. The wells range in depth from 6,500 to 10,500 feet. Two other wells will be drilled on Petrol lands at no cost to the Company. The locations of these six wells which will be drilled during the 1971-72 drilling season will be shown on a map in our next report, in addition to the well locations of other companies in the area.

Grandview Hills

In conjunction with its associates, Petrol has acquired an option on 815,000 acres in the Grandview Hills area as shown on the map. The Company will participate in a \$1.2 million seismic program over these lands this winter. Drilling on any prospects located is scheduled for the winter season of 1972-73.

Beaufort Sea

Imperial Oil's discovery of oil and gas along the Arctic Coast will accelerate exploration activities in this area during the coming winter. Your Company owns interests ranging from 1.2% to 10% in offshore blocks totalling 628,000 permit acres. Seismic surveys have been completed on the eastern portion of the Beaufort Sea and interpretation of these records is under way.

Inuvik

At Inuvik plans are being made to do seismic on the western half of your Company's 142,000 acre block; Petrol owns 10%.

ARCTIC ISLANDS

Prince of Wales

The Company is conducting a marine seismic and gravity meter survey on part of the lands and stockpiling fuel and constructing an airstrip for an extensive seismic program to be done in the spring of 1972. Your Company's lands lie close to a gas pipeline route being examined as a possible alternative for moving gas from the Arctic when sufficient reserves are proved.

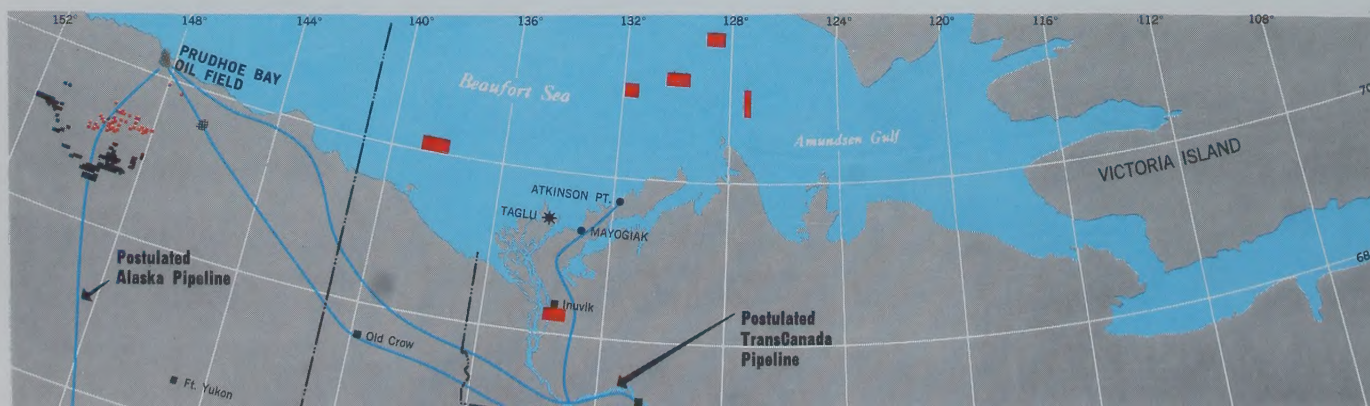
The Panarctic-Deminex Garnier well on the east side of Cornwallis Island has been abandoned at 10,052 feet. A new location, Sun Panarctic Russell H-92 scheduled for 6,000 feet has been announced. This well lies 30 miles north of the large acreage block on Prince of Wales Island. Petrol owns a 2.3% interest in 4.4 million acres.

Polynia Islands

As noted in our previous report, the B.P. - Panarctic Satellite F-68 well on Prince Patrick Island is to be drilled in the fall of 1971. This location is 25 miles from our Polynia acreage in which your Company owns a 10% interest in 82,360 permit acres.

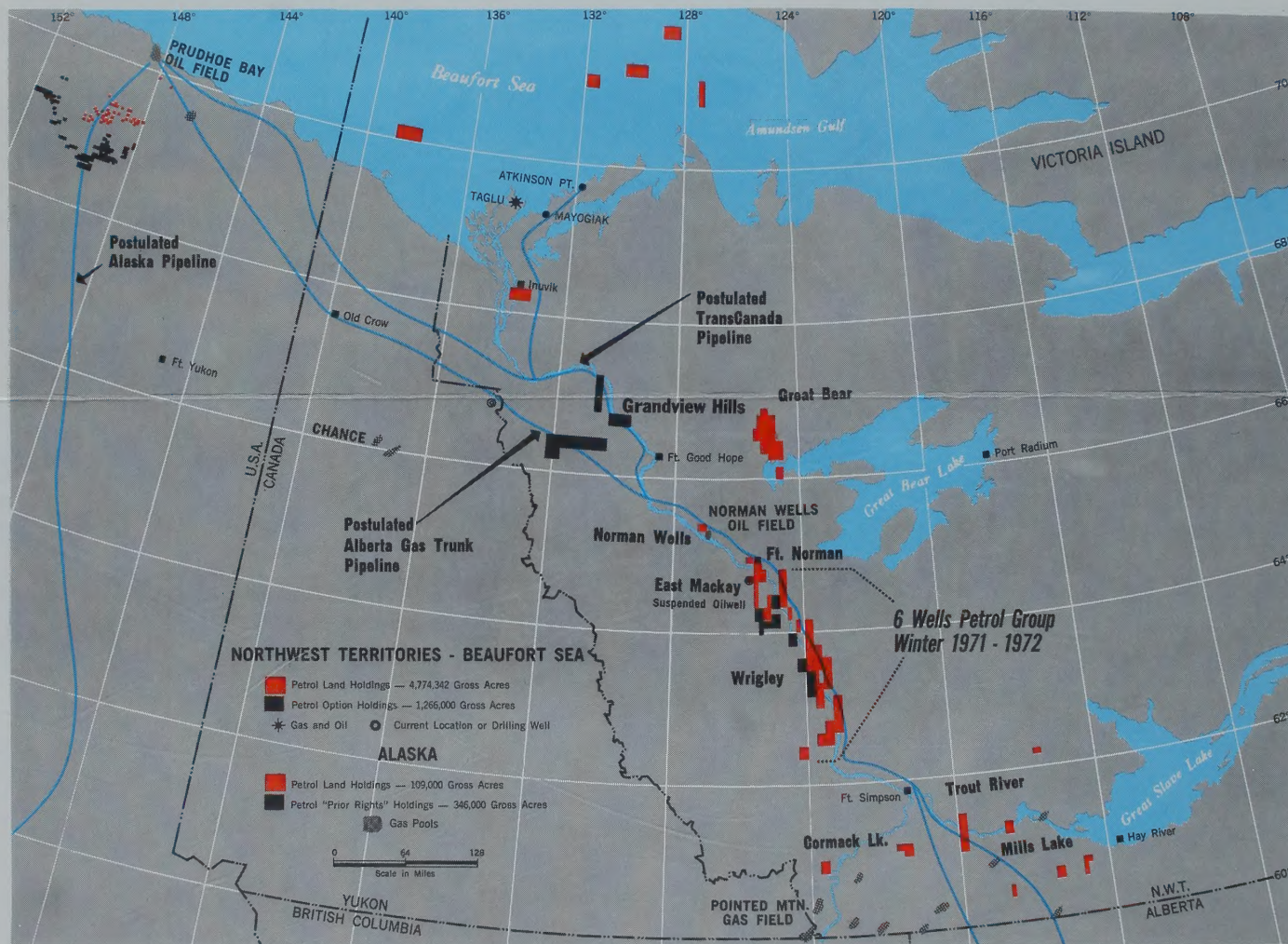
Offshore Newfoundland

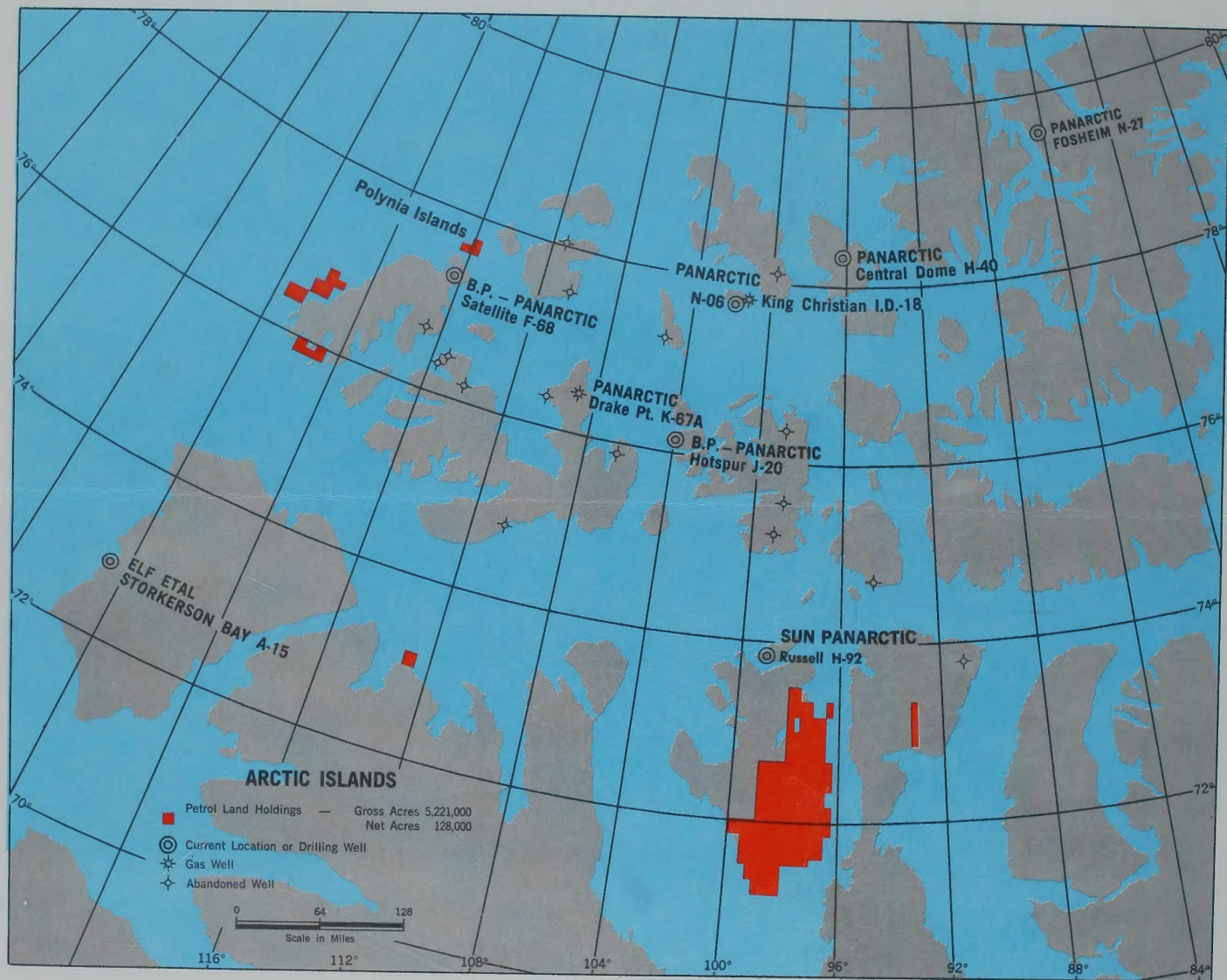
The first of two Tenneco wells, Lief E-48, is now drilling. This well was originally spudded on July 6, but surface difficulties forced a new start about one-half mile away. Petrol owns a 5% interest in two blocks consisting of 285,000 permit acres and 886,000 permit acres. Marine seismic programs are being conducted over these properties this summer.



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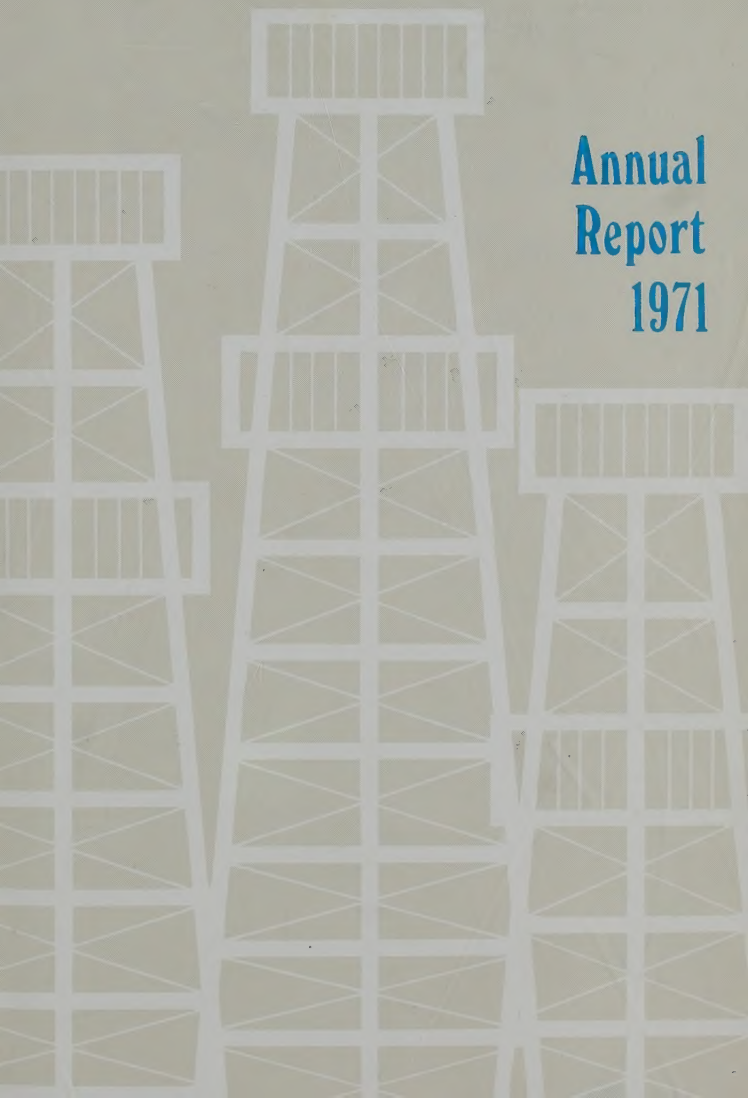
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The
Petrol
Oil and Gas
Company
Limited

**Annual
Report
1971**



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Annual Meeting

The annual meeting of the shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 18, 1972 at 2:00 p.m., local time. A formal notice of the meeting together with a proxy form and information circular, is enclosed with this report.

Summary of the Year 1971

FINANCIAL	1971	1970
Gross Income	\$ 999,000	773,000
Cash flow	644,000	497,000
Per share - ¢	16.1	12.4
Depreciation and depletion	233,000	199,000
Net income	411,000	298,000
Per share - ¢	10.3	7.4
Working capital	1,212,000	1,028,000
Exploration & development	662,000	282,000
OPERATING		
Oil production		
—net barrels	298,000	261,000
Natural gas sales		
—net mcf	501,000	500,000
Proven and probable additional reserves		
Oil—gross barrels	8,884,000	8,232,000
Natural gas—gross mcf	23,800,000	22,900,000
Sulphur—long tons . . .	86,000	90,000
Land holdings		
Gross acres	11,518,000	11,786,000
Net acres	477,000	487,000

During the year...

In 1971, Petrol's growth pattern continued to reflect higher revenues, cash flows, production volumes and reserves. Net income was \$411,000 in 1971, 38% above the 1970 earnings of \$298,000. Earnings per share were 10.3¢ in 1971, compared with earnings of 7.4¢ in 1970.

Cash flow from operations amounted to \$644,000 (16.1¢ per share) in 1971 versus \$497,000 (12.4¢ per share) in the previous year. These improvements resulted primarily from the sale of larger volumes of crude oil at higher prices.

Owing to the growth in demand for petroleum products, United States oilfields are presently delivering at near record rates. Two recent announcements by officials of the petroleum regulatory bodies in Texas and Louisiana indicate that the surplus productivity capacity, utilized in the past to meet disruptions in offshore supplies, is now close to being unable to meet demand. While oil productive capacity exists at Prudhoe Bay in Alaska, these reserves lack a transportation link to market. Until pipelines can be constructed to market these reserves and those being uncovered in northern Canada, the Province of Alberta is the only major oil area with spare productive capacity. This capacity at the moment however is restricted by transportation and field facilities which are unable to handle the full productivity of the wells. In anticipation of higher oil production allowables, both the industry and your Company are making the necessary expenditures to enlarge these facilities and to initiate other projects to increase productivity. As 92% of Petrol's production is derived from Alberta oilfields, some of which have the potential of significantly higher production, the Company's growth pattern is expected to be favorably affected.

According to a recent report issued by the Federal Power Commission in Washington, 1971 marked the first year when demand for natural gas was not met. The 1971 demand of 24.6 trillion cubic feet of gas was unsatisfied by 900 billion cubic feet. On the assumption that unlimited gas is available then this deficit is

expected to grow to 9 trillion by 1980 and 17 trillion cubic feet by 1990. In any event, to meet part of the demand, the United States will have to increasingly rely on imported supplies.

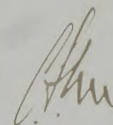
Recognizing from the United States experience that there is a strong relationship between the wellhead value of natural gas and the degree of incentive to find and produce more of it, the Alberta government has initiated public hearings to determine the relationship of the price of Alberta gas to other gases and to other energy forms in each of the Canadian and United States market regions served. The low prices being paid to the producer for natural gas has a material effect on the government treasury, as its royalties are based upon the wellhead or plant outlet price. While there will undoubtedly be a clash of interests at the price inquiry, there is consensus that Alberta gas prices will have to rise if an acceptable level of exploration is to be maintained. Higher prices may be offset in some measure by the need of the Alberta government to raise additional monies from oil and gas production.

The problem of the looming energy shortage in the United States has been building over a number of years. Low prices for crude oil and natural gas, together with uncertainties in the politically-oriented areas of marketing, taxation and ecological protection, has led to a reluctance by the investing public to provide sufficient funds to maintain exploration and drilling activities at a level sufficient to replace produced reserves. It is significant to note that some of the U.S. utility companies most keenly aware of the energy situation are now making substantial investments or advances toward the discovery of new reserves.

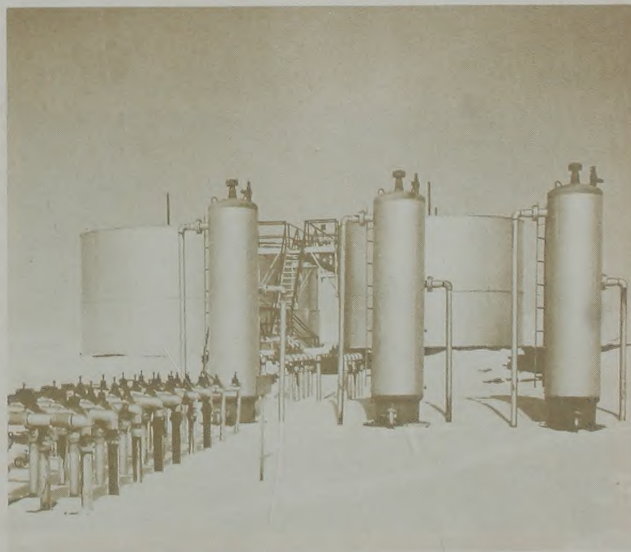
As the search spreads to the Arctic and continental offshore areas, costs become increasingly higher. In order to attract the required risk capital for these operations, both the Canadian and the United States governments may be forced to adopt policies of more incentives to the providers of risk capital. Such incentives would include higher prices for crude oil and

natural gas, higher daily production rates and the removal of the political uncertainties that deter the industry from getting on with the job of solving the energy problem. Petrol stands to benefit by such policies as its fields are capable of greater production. The Company also has a good land spread. The Company has interests in petroleum and natural gas rights in the Mackenzie River Basin, the Arctic Islands, Western Canadian Provinces and the Eastern Seaboard, all of which are regarded as areas for the future development of both oil and gas; it has become increasingly clear that any company with an eye to the future should be establishing petroleum and natural gas rights in the frontier areas.

March 17, 1972
Calgary, Alberta



C. S. Lee
President



Income Statement

Net Income

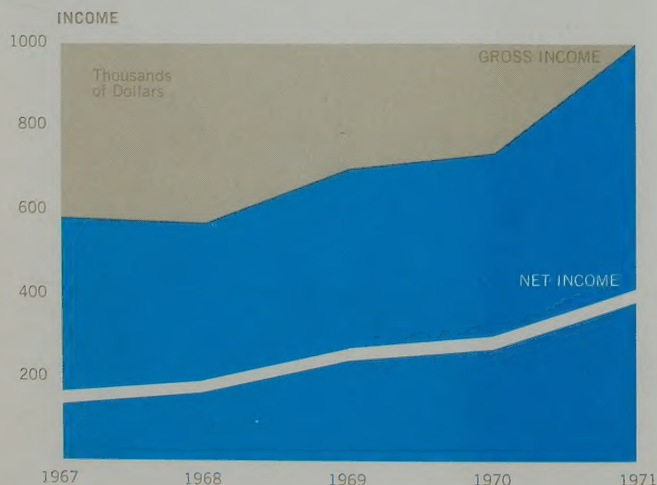
Petrol's net income in 1971 amounted to \$411,000 or 10.3¢ per share. These earnings were 38% higher than those in 1970 at \$298,000 or 7.4¢ per share.

Cash Flow

Cash flow from operations rose 30% from \$497,000 (12.4¢ per share) to \$644,000 (16.1¢ per share) in 1971.

Revenues

Oil revenues at \$860,000 were up \$171,000 (25%) over 1970; the increase resulted from larger volumes sold (+\$99,000) at a better price (+\$72,000). Natural gas sales totalled \$77,000 (\$73,000 last year). Interest and other income moved upward from \$5,000 in 1970 to \$56,000 in 1971. Gross income for 1971 and 1970 amounted to \$999,000 and \$773,000 respectively.

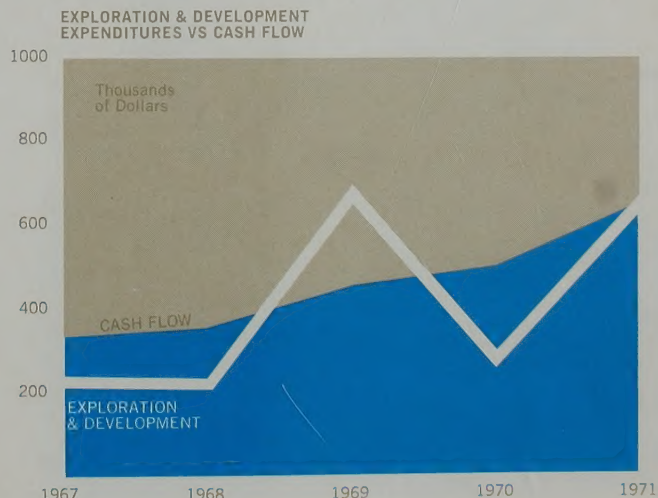


Charges Against Revenue

Total cash expenses amounted to \$355,000 in 1971 (\$276,000 in 1970). Production expenses increased by \$43,000 (22%) to \$238,000. A major portion of the higher expenses were associated with increasing the efficiency of the wells lifting systems to meet the higher oil production allowables.

Source and Use of Funds

During 1971, funds were derived firstly from operations (\$644,000) and secondly from a sale of a production payment of \$625,000. The use of these funds included exploration and development expenditures of \$662,000 and the retirement of production payments of \$425,000. Working capital at the year end was \$1,212,000 compared with \$1,028,000 last year.



Reserves

Crude oil reserves increased by 7.9% from 8,232,000 gross barrels in 1970 to 8,884,000 barrels, mainly as a result of an upward adjustment of the reserves at Simonette. Gross oil production in 1971 amounted to 356,000 barrels.

Natural gas reserves increased by 3.9% to 23.8 billion cubic feet after producing .5 billion cubic feet in 1971.

Sulphur reserves were adjusted downwards from 90,000 to 86,000 long tons. The Company continues to stockpile its sulphur production owing to current depressed prices and limited markets.

A summary of the Company's crude oil, natural gas and sulphur reserves is presented below with comparative figures for the previous year. The reserves have been estimated by an independent consultant.

Proven and Probable Additional Reserves December 31

	1971	1970
Crude Oil—gross barrels . .	8,884,000	8,232,000
Natural Gas—gross mcf . .	23,800,000	22,900,000
Sulphur—gross long tons . .	86,000	90,000



Production

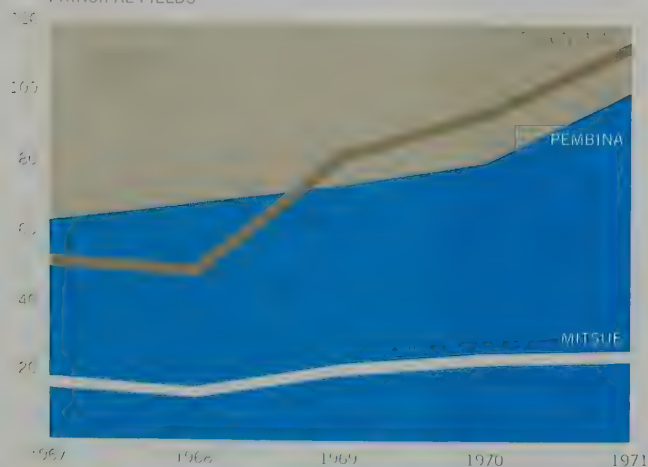
Petrol's net crude oil production in 1971 totalled 298,000 barrels, up 14.2% over 1970. From the accompanying graph it will be noted that the source of this increase has been primarily derived from the Company's properties in Mitsue, Pembina and especially Simonette. With the increasing demand for crude oil, the present capacity of the Simonette plant would act as a bottleneck and prevent full permissible production after 1972. A feasibility study relating to an expansion of the gas plant from 15 to 37 mmcf/d by mid-1973 indicates a favorable investment opportunity. Petrol's share of this expenditure during 1972 and 1973 is estimated at \$650,000.

Natural gas deliveries during 1971 amounted to 501 million cubic feet compared with 500 million last year.

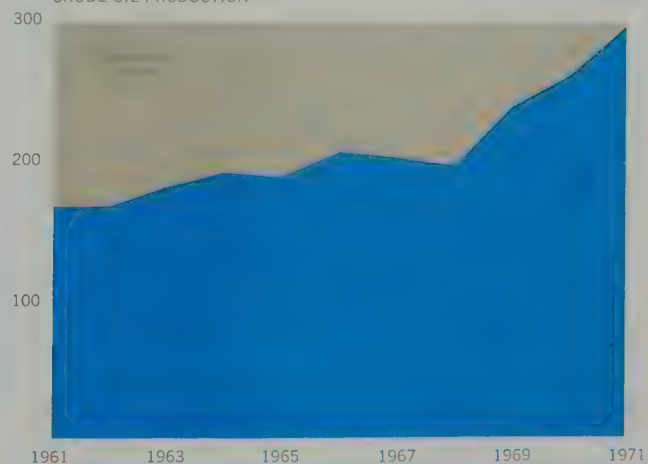
Production by fields for both oil and gas over the past 5 years are tabulated in the statistical section of this report. During 1971, the Company received an average price of \$2.88 per barrel for its crude oil and 15.4¢ per mcf for its natural gas and liquids.



CRUDE OIL PRODUCTION
PRINCIPAL FIELDS



TEN YEAR TREND
CRUDE OIL PRODUCTION



Exploration and Development

In conjunction with its parent company, Western Decalta, Petrol has participated in seismic and drilling programs both in the Northwest Territories and on the Canadian Plains. A review of the Company's land holdings and the activities thereon are presented below.

NORTHWEST TERRITORIES

At the year end, the Company owned interests in various permits totalling 2,796,200 gross (161,100 net) acres and had options to earn varying interests in an additional 1,665,800 gross (33,900 net) acres (the "option lands").

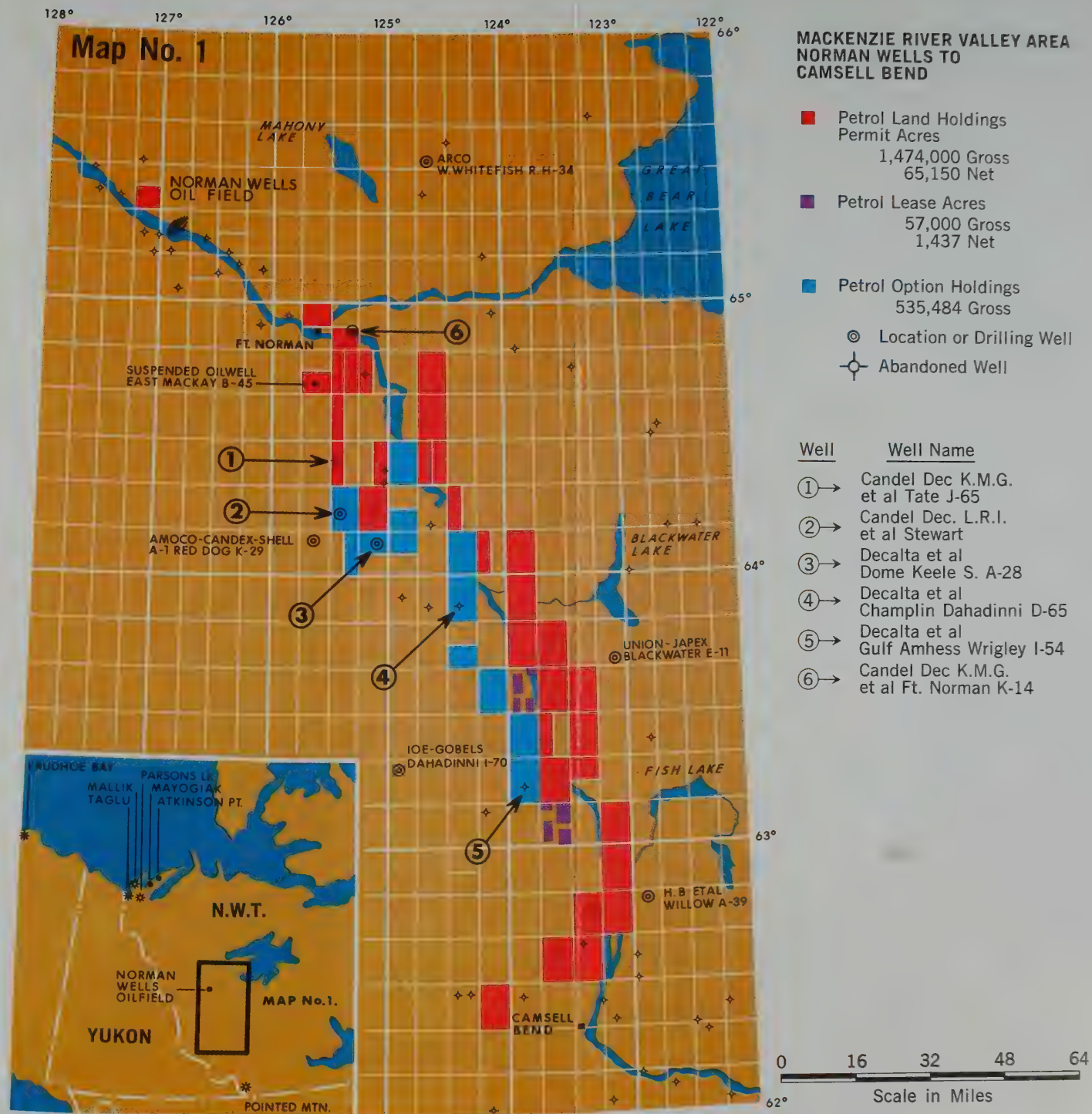
Mackenzie River Valley Norman Wells to Camsell Bend (Map 1)

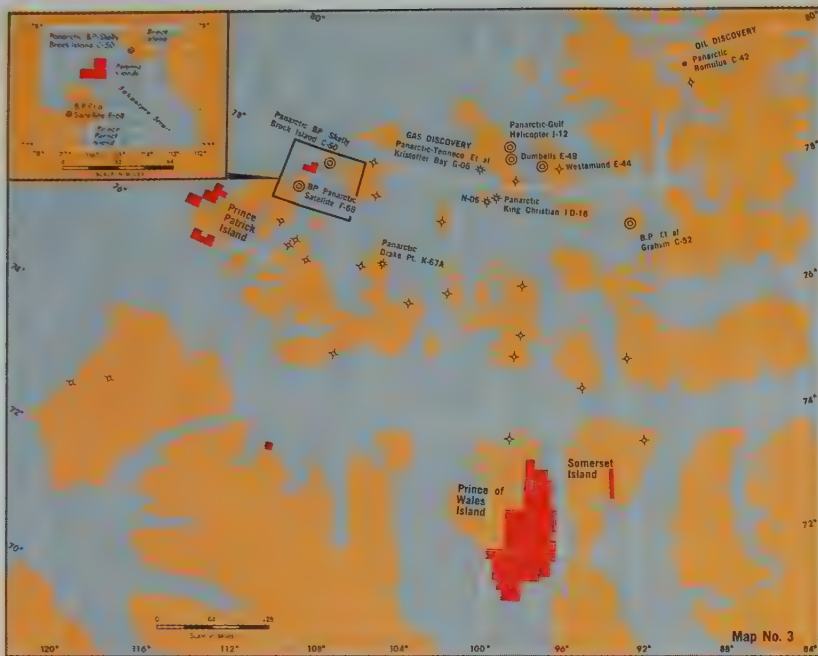
Petrol's interests in this region ranges from 1.25% to 10% in 1,472,700 gross (64,900 net) permit acres extending 228 miles along the Mackenzie River Valley. By the end of the 1971-72 winter drilling season Petrol will have participated in the drilling of 4 wells on option lands to earn interests ranging from 1.25% to 2.5% in 253,600 gross (4,600 net) acres. Two of the wells at Dahadinni and Wrigley were dry and abandoned; the other two wells at Stewart and Keele South are currently drilling. Petrol's share of the costs of drilling the first two wells was 5% and will be 2.5% on the wells currently drilling. Another group of companies drilled Candel Tate on a farmout from Petrol and associates. This well had hydrocarbon shows in two horizons but in non-commercial quantities and the well was abandoned. Under a similar farmout agreement, other companies are expected to drill another well on Petrol's properties prior to the close of the current drilling season.

During the winter of 1971/72, your Company has participated with others in acquiring an additional 215 miles of seismic surveys in this area bringing the total seismic available to approximately 1300 miles. While the surveys have indicated a number of structures on part of our lands, additional drilling and geophysical work will be required over the next few years.

Grandview Hills (Map 2)

Petrol has taken options on two land blocks in the Grandview Hills area located approximately 120 miles northwest of Norman Wells. On the first option land block, consisting of 815,000 gross (20,400 net) permit acres, an estimated \$1.2 million seismic program is being conducted. Petrol's share of the costs will be 5%. A \$150,000 seismic program has been completed over the second option





ARCTIC ISLANDS Petrol Land Holdings

- Permit Acres
5,221,000 Gross
128,000 Net
- ⊙ Location or Drilling Well
- ☼ Gas Well
- ⊖ Abandoned Well

land block, totalling 399,700 gross (5,000 net) acres. Petrol's share of the costs of this survey was 2.5%.

In the event that any prospects are located on these option lands, the first such prospects probably will be drilled during the winter season of 1972/73.

Great Bear Lake (Map 2)

In this area Petrol owns a 3.75% interest in 562,000 gross (21,100 net) permit acres. Another company has conducted seismic on part of this property. This company may earn a 50% interest in 120,000 acres out of the total area of 562,000 acres by drilling a well in 1972/73.

Mackenzie River Delta (Map 2)

The discovery of oil and/or gas by a major oil company at Atkinson Point, Taglu, Mayogiak and Mallik and the recent announcement of a gas and condensate discovery by Gulf Oil at Parsons Lake, all in the Mackenzie River Delta, have increased exploratory activities in this area. Petrol holds a 10% interest in 142,500 acres at Inuvik.

ARCTIC ISLANDS (Map 3)

Extensive geophysical and drilling operations in the Arctic Islands are being carried out by a large number of companies.

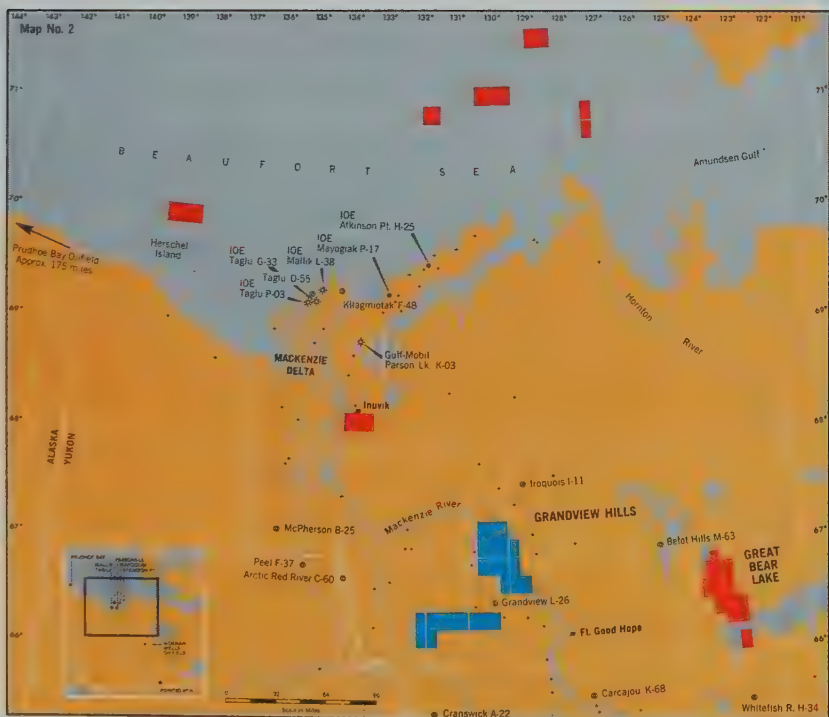
The Company's holdings in the Arctic Islands total 5,221,300 gross (128,400 net) permit acres. The activities in the vicinity of Petrol's holdings are reviewed below.

Polynia and Prince Patrick Islands

The Polynia Islands lie between Prince Patrick Island to the south and Brock Island to the north. The Company's holdings (10% in 82,360 acres) are located approximately mid-way between the B.P. Panarctic Satellite F-68 well and the Panarctic B.P. Skelly Brock C-50 well, both of which are now drilling. These wells are some 60 miles apart. The Company also has holdings, primarily offshore, in this area along the west side of Prince Patrick Island consisting of 3.34% interest in 328,000 gross (10,900 net) permit acres and along the south coast where it holds a 1.25% interest in 156,000 gross (2,000 net) permit acres.

Prince of Wales and Somerset Islands

In this area, Petrol owns varying interests in 4,580,000 gross (103,900 net) permit acres. The Company has participated in a marine seismic and gravity meter survey on part of this property. A fuel cache has been prepared for a seismic program to be done in the spring of 1972.



BEAUFORT SEA - MACKENZIE DELTA

- Northwest Territories
Petrol Land Holdings
Permit Acres
1,752,000 Gross
72,000 Net
- Petrol Option Holdings
Permit Acres
1,214,814 Gross
25,400 Net
- ⊙ Location or Drilling Well
- ☼ Gas Well
- Oil Well
- ⊖ Abandoned

Drilling Activity

In 1971, Petrol participated in the drilling of 40 wells with an average interest of 4.5%. Of the 40 wells, 34 were drilled on the Plains of Alberta, British Columbia and Saskatchewan; 4 were drilled in the Northwest Territories and one each in New Brunswick and the United States. The drilling resulted in 13 gross (.68 net) oil wells; 7 gross (.27 net) gas wells and 20 gross (.82 net) dry holes.

Acreage Holdings

At December 31, 1971, Petrol held 11,518,000 gross (477,000 net) acres; these compare with 11,786,000 gross (486,000 net) acres last year.

During the year, additions were made to the Company's land portfolio in Alberta, British Columbia and in the United States. Following some exploratory evaluation work in the Hudson Bay area, Petrol surrendered a portion of its holdings. A summary of acreage holdings by areas is shown in the statistical section of this report.

Financial Statements AND STATISTICAL TABLES

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Consolidated Balance Sheet

ASSETS	As at December 31	
	1971	1970
CURRENT:		
Cash	\$ 82,000	\$ 136,000
Short term investments at cost which approximates market	1,000,000	750,000
Accounts receivable	69,000	35,000
Due from affiliated company	169,000	167,000
Prepaid expenses	4,000	3,000
	<u>1,324,000</u>	<u>1,091,000</u>
REFUNDABLE DEPOSITS . . .	<u>1,000</u>	<u>3,000</u>
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$1,872,000 (1970-\$1,704,000)	3,535,000	3,124,000
Plant and equipment less accumulated depreciation of \$748,000 (1970 - \$684,000)	493,000	475,000
	<u>4,028,000</u>	<u>3,599,000</u>
OTHER:		
Sundry investments at cost	2,000	2,000
	<u>\$5,355,000</u>	<u>\$4,695,000</u>

See accompanying notes.

Auditors' Report

To the Shareholders of
THE PETROL OIL & GAS COMPANY, LIMITED.

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1971 and the consolidated statements of income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

the **PETROL** oil and gas company limited
and subsidiary companies

LIABILITIES	As at December 31	
	1971	1970
CURRENT:		
Accounts payable and accrued charges	\$ 99,000	\$ 46,000
Due to parent company . . .	13,000	17,000
	<u>112,000</u>	<u>63,000</u>
DEFERRED PRODUCTION INCOME (Note 3)	<u>1,177,000</u>	<u>977,000</u>
SHAREHOLDERS' EQUITY:		
Capital-		
Authorized - 8,000,000 shares of no par value		
Issued - 3,995,000 shares	2,744,000	2,744,000
Earned surplus (see statement page 20) .	1,322,000	911,000
	<u>4,066,000</u>	<u>3,655,000</u>
	<u>\$5,355,000</u>	<u>\$4,695,000</u>

On behalf of the Board:

 Director.  Director.

In our opinion these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1971, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 4, 1972.

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated Statement of Income and Earned Surplus

	For The Years Ended December 31	
	1971	1970
Net oil and gas sales	\$ 943,000	\$ 768,000
Interest and other income	56,000	5,000
	<u>999,000</u>	<u>773,000</u>
Deduct:		
Production expenses	238,000	195,000
General and administrative expenses	72,000	68,000
Interest expense	45,000	13,000
	<u>355,000</u>	<u>276,000</u>
Cash flow from operations	644,000	497,000
Depreciation and depletion	233,000	199,000
Net income for the year (see notes)	<u>411,000</u>	<u>298,000</u>
Earned surplus at beginning of year	911,000	613,000
Earned surplus at end of year	<u>\$ 1,322,000</u>	<u>\$ 911,000</u>
Net income per common share	<u>10.3¢</u>	<u>7.4¢</u>

Consolidated Statement of Source and Application of Funds

	For The Years Ended December 31	
	1971	1970
Source of funds:		
Cash flow from operations	\$ 644,000	\$ 497,000
Sale of production pay- ments	625,000	1,100,000
Sale of property		133,000
Total funds provided	<u>1,269,000</u>	<u>1,730,000</u>
Application of funds:		
Additions to property and equipment	662,000	282,000
Retirement of production payments	425,000	227,000
Other	(2,000)	2,000
Total funds applied	<u>1,085,000</u>	<u>511,000</u>
Increase in working capital	\$ 184,000	\$ 1,219,000
Working capital (deficiency) at beginning of year	1,028,000	(191,000)
Working capital at end of year	<u>\$ 1,212,000</u>	<u>\$ 1,028,000</u>

See accompanying notes.

Notes to Consolidated Financial Statements DECEMBER 31, 1971

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for purposes of consolidation, included on the basis of \$1 U.S. equals \$1 Canadian. Net assets so converted amounted to \$235,000.

2. Accounting practice

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. Deferred production income

During the year production payments, representing a portion of the Company's interest in future production from certain oil lands, were sold for \$625,000 cash. Production from the interests in the oil and gas reserves of the lands covered by these production payments will revert to the Company after repayment of the principal amounts. Due to the short term nature of these financing arrangements, all of which are expected to be retired within three years, proceeds from the sales of the production payments have been deferred in the accounts and are reflected in income as the related oil and gas reserves are produced and sold. Repayments during the year on production payments sold in the current and prior years amounted to \$425,000.

4. Income taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges against earnings. As a result, no income taxes are payable in

respect of the net income reported for the year ended December 31, 1971 and at that date accumulated expenditures of \$325,000 remain to be carried forward and applied against future taxable income. For 1971, capital cost allowance claims will approximate depreciation recorded in the accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes but the Company, in common with many other companies in the oil and gas industry in Canada, does not believe that tax allocation in respect of drilling, exploration and lease acquisition costs is appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

Had provision for deferred income taxes been made with respect to all differences in timing of deductions for tax and accounting purposes deferred income taxes of \$140,000 or 3.5¢ per share in 1971 (\$105,000 or 2.6¢ per share in 1970) would have been provided and the net income for the year would have been reduced accordingly. The accumulated income tax deferrals relative to all timing differences amounted to approximately \$760,000 at December 31, 1971.

OIL PRODUCTION BY FIELDS (Thousands of Barrels)

ALBERTA	1971	1970	1969	1968	1967
Fenn	17	14	12	12	13
Mitsue	26	25	22	15	18
Pembina	85	80	73	68	63
Simonette	115	95	83	50	53
Swan Hills	6	6	7	9	9
Turner Valley	16	15	14	12	12
Other Fields	8	6	7	7	7
	273	241	218	173	175
SASKATCHEWAN					
Instow	5	6	6	6	8
Other Fields	5	4	3	5	6
	10	10	9	11	14
BRITISH COLUMBIA	1	1	1	1	—
UNITED STATES	14	9	11	10	12
	298	261	239	195	201

GAS PRODUCTION BY FIELDS (Millions of Cubic Feet)

ALBERTA	1971	1970	1969	1968	1967
Ashmont	53	135	—	—	—
Ghost Pine	10	55	46	53	—
Gordondale	16	22	—	—	—
Hussar	72	—	—	—	—
Pembina	38	39	29	23	18
Simonette	259	203	97	64	62
Turner Valley	24	24	20	18	13
Other	11	4	—	—	1
	483	482	192	158	94
ONTARIO	—	—	10	14	22
SASKATCHEWAN	5	13	7	8	—
UNITED STATES	13	5	—	—	—
	501	500	209	180	116

Summary of Acreage Holdings

Area	Petroleum and Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	439,200	32,900	154,200	7,500	593,400	40,400
Alaska	109,100	1,900			109,100	1,900
British Columbia	12,800	900	36,700	10,200	49,500	11,100
Hudson Bay			308,300	15,400	308,300	15,400
Maritimes (offshore)			1,630,200	73,900	1,630,200	73,900
Northern Canada:						
Northwest Territories	57,500	1,400	2,796,200	161,100	2,853,700	162,500
Beaufort Sea			628,000	36,700	628,000	36,700
Arctic Islands			5,221,300	128,400	5,221,300	128,400
Saskatchewan	14,800	1,300	98,400	3,900	113,200	5,200
United States	6,800	900	4,800	200	11,600	1,100
	<u>640,200</u>	<u>39,300</u>	<u>10,878,100</u>	<u>437,300</u>	<u>11,518,300</u>	<u>476,600</u>

*Convertible into leases to the extent of approximately 50%.

ANALYSIS OF GROSS INCOME (Thousands of Dollars)

	1971	1970	1969	1968	1967
Net Oil Sales	\$860	689	628	503	518
Net Gas Sales	77	73	43	40	36
Royalty Revenue	6	6	6	6	7
Net Oil and Gas Sales	943	768	677	549	561
Interest and Other Income	56	5	15	17	9
	<u>\$999</u>	<u>773</u>	<u>692</u>	<u>566</u>	<u>570</u>

EXPENDITURES FOR FINDING AND DEVELOPING (Thousands of Dollars)

	1971	1970	1969	1968	1967
Land and Rentals	\$315	64	220	98	94
Geological and Geophysical	57	28	30	13	48
Non-productive Drilling	76	55	90	54	29
Productive Drilling	70	34	85	8	16
Productive Equipment	144	101	271	54	42
	<u>\$662</u>	<u>282</u>	<u>696</u>	<u>227</u>	<u>229</u>

Ten Year Statistical Review (1)

the **PETROL** oil and gas company limited
and subsidiary companies

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
INCOME										
Net oil and gas sales	\$ 943	768	677	549	561	563	528	533	499	457
Interest and other income	56	5	15	17	9	8	6	10	13	7
Gross income	999	773	692	566	570	571	534	543	512	464
EXPENSES										
Production	238	195	167	152	162	166	159	160	166	140
General and administrative	72	68	56	48	42	40	38	37	41	47
Interest	45	13	12	15	30	30	15	—	—	15
Total	355	276	235	215	234	236	212	197	207	202
CASH FLOW FROM OPERATIONS.	644	497	457	351	336	335	322	346	305	262
Per share — ¢	16.1	12.4	11.4	8.8	8.4	8.4	8.0	8.6	7.6	6.5
DEPRECIATION AND DEPLETION .	233	199	186	162	172	179	177	147	see note (2)	
NET INCOME (LOSS)										
ON OPERATIONS	411	298	271	189	164	156	145	199	78	(34)
Gain on sale of securities	—	—	—	—	—	—	22	9	20	8
NET INCOME (LOSS) (2)	411	298	271	189	164	156	167	208	98	(26)
Per share (exclusive of special gains) — ¢	10.3	7.4	6.8	4.7	4.1	3.9	3.6	5.0		
WORKING CAPITAL (DEFICIENCY)	1,212	1,028	(191)	306	243	216	193	150	415	345
EXPENDITURES										
Exploration and development	662	282	696	227	229	462	725	527	258	202
PRODUCTION										
Oil — net barrels	298	261	239	195	201	205	188	191	180	166
Gas — net mcf	501	500	209	180	116	27				
RESERVES (3)										
Oil — gross barrels	8,884	8,232	8,594	8,967	8,807	8,805	7,786	7,458	4,572	4,617
Gas — gross mcf	23,800	22,900	19,800	17,300	18,300	4,900	5,200	3,700	3,700	3,700
LAND HOLDINGS										
Gross acres	11,518	11,786	12,713	4,852	2,947	2,842	471	450	457	539
Net acres	477	487	630	394	324	316	144	147	143	147
SHARES OUTSTANDING	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995

Notes

(1) The above statistics are for The Petrol Oil & Gas Company, Limited and its wholly-owned subsidiaries. With the exception of per share figures, amounts are in thousands.

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1964.

(3) Includes proven and probable additional reserves.

Officers and Directors

Charles S. Lee

Calgary, Alberta

*President of the Company
Chairman of Western Decalta Petroleum Limited
President of New Brunswick Oilfields, Limited
Director of Consolidated West Petroleum Limited*

Alastair H. Ross

Calgary, Alberta

*Vice-President of the Company
President of Western Decalta Petroleum Limited
President of Consolidated West Petroleum Limited
Vice-President of New Brunswick Oilfields,
Limited*

L. G. Elhatton

Calgary, Alberta

*Secretary-Treasurer of the Company
Secretary-Treasurer of Western Decalta Petroleum
Limited
Secretary of New Brunswick Oilfields, Limited*

Harold J. Howard

Calgary, Alberta

Retired Executive

James L. Lewtas, Q.C.

Toronto, Ontario

*Partner of Campbell, Godfrey & Lewtas
Barristers and Solicitors*

F. Richard Matthews, Q.C.

Calgary, Alberta

*Partner of MacKimmie Matthews
Barristers and Solicitors*

Robert Tetrault

Calgary, Alberta

*President of Alberta White Trucks (Calgary)
Limited*

Corporate

TRANSFER AGENTS

Crown Trust Company
302 Bay Street,
Toronto 1, Ontario

HEAD OFFICE

36th Flr., Toronto-Dominion Centre,
Toronto, Ontario

EXECUTIVE OFFICE

630 - 6th Avenue S.W.,
Calgary 1, Alberta

LISTING

Toronto Stock Exchange

SUBSIDIARY COMPANIES

The Petrol Oil and Gas Corporation
Petrol Mineral Enterprises Ltd.

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